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## ***Résumé en français.***

Durant les trente dernières années, la Chine est devenue l'un des pays dont l'économie s'est développée extrêmement vite et elle est devenue la destination d'investissements d'outre-mer. Le marché chinois est le plus grand pour beaucoup d'industries dans le monde entier, considérant sa population de plus de 1.3 milliards de consommateurs. En raison de ses caractéristiques particulières, comme la politique, la culture, l'histoire, les habitudes, etc., son économie et ses marchés ont des spécialités qui sont évidemment distinctes de celles de l'Amérique du Nord et de l'Europe. Une compréhension profonde de ce marché spécial est "la classe obligatoire" pour les sociétés étrangères qui ont l'intention d'entrer, et même l'ambition de réussir, sur ce marché énorme et incertain.

Cette recherche est un rapport industriel de la formation à l'anglais en Chine n'incluant pas de diplôme ou d'enseignement venant de l'organisation gouvernementale et officielle, comme les lycées et les collèges, mais venant d'organisations privées de formation à l'anglais. Elle utilise aussi la théorie des cinq forces de Porter et la théorie d'analyse de l'environnement industriel pour livrer des conclusions quant au degré de compétition et à la situation du marché de la formation à l'anglais en Chine.

Avec cette recherche, nous essayons d'offrir à des sociétés internationales un exemple typique comme référence pour entrer sur ce marché en plein développement et faire face à un environnement industriel distinct, avec son choc culturel, politique, économique, son choc des valeurs quant au client, ou tout autre aspect. À la fin, nous avons essayé de dégager deux points d'implication qui seraient intéressants ou inspirants pour de nouvelles recherches.

## *Abstract in English*

In the last thirty years, China has become one of the countries that have developed their economy extremely fast and it has quickly become the destination of overseas investments. The Chinese market is comparatively the largest one for many industries all around the world, considering its population of 1.3 billion. Due to the particular characteristics of its politics, culture, history, habits, etc, its economy and markets have their specialties which are obviously distinct from the North American and European ones. A deep understanding of this special market is the “obligatory class” for foreign companies that have the intention to enter and even the ambition to succeed in this huge and uncertain market.

This research is an industrial report of the English training market which does not include the degree or diploma education from governmental and official organizations, such as high schools, colleges, but emanates from private English training organizations. It also uses Porters’ five forces and industrial environment analysis theory to conduct conclusions about competition degrees and the market situation of the English training market in China.

With this research, we try to offer typical examples for international companies as a reference in order to enter this developing market and face its distinct industrial environment with its shocks of culture, politics, economy, customer values and all its other aspects.

In conclusion, we tried to dig out two implicating points which would be interesting or inspiring for further researches.

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## INTRODUCTION

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Internationalization and globalization are acknowledged by most countries all around the world as both imperative and necessary trends in the business world. With the rapid development in many areas of our economy, society, science and technology, and due to the globalization of the world economy, the acceleration of the integration process, the connection of global information networks and the diversification of consumer demands, the business environment is becoming more open and unstable. This has an impact on all enterprises to some degree. Enterprises need to enter in or expand to foreign markets in order to develop new opportunities and explore more avenues for profit. They also need this in order to be able to struggle for the chance to survive by utilizing their own advantages, thereby substantiating the classic international business exchange theory. When expanding to a new business environment, new cultures, new policies and new consuming habits need to be investigated and different market strategies need to be adapted.

Over the last 20 years, some developing countries in Asia and South America, such as China and Mexico, have been characterized as “speed trams” contributing stupendously to the international business market with their huge market, abundant labor and natural resources. Experts both predicted and stated that businesses, especially those MNC, who ignore developing markets in Asia and South America, such as China, will lose their successful position in the next century.

This chapter will begin with a brief background of our thesis topic and a discussion of the problems which have led us to the purpose of this research and the objectives of this study.

## **I. 1 Background**

In today's global market and in this diverse industry, companies often need penetration into other countries to set up their international branches, which are necessary for structural and strategic purposes. Being successful in foreign business is not solely for profit, or to avoid saturated competitive domestic markets, but for the strategic success of the global industry as a whole. The moves to foreign markets will determine whether a company can survive, or not, in the business world. From this perspective, the expansion of your business is imperative. How to choose a destination market, and how competitive this potential market will be, needs to be quantitatively determined according to specific models and tools.

### *Industry environment*

An industry's environment is defined as the “circumstances, influences, stresses, competitiveness, culture, demographics, economy, and the natural, political, regulatory, and technological factors (called environmental factors) that effect the survival, the operations, and growth of an organization.” It is also defined as the “total sum of all the surroundings of a living organism, including natural forces and other living things, which provide conditions for development and growth, as well as for danger and damage.”

Source: <http://www.businessdictionary.com/definition/environment.html>

### *Industry analysis*

Industry analysis is defined as a market assessment tool, designed to provide a business with an idea of the complexity of a particular industry. Industry analysis involves reviewing the economic, political and market factors that influence the way the industry develops. Major factors can include the power yielded by suppliers and buyers, the condition of competitors, and the likelihood of new market investors.

Source: <http://www.businessdictionary.com/definition/industry-analysis.html>

*It is widely acknowledged that Industry Analysis* is the acquisition of corporate intelligence on a broad range of issues including:

- Macro-environment
  - economy
  - government
  - law
  - technology
  - ecological
- Market analysis and competitor analysis
  - market definition
  - market size
  - market segmentation
  - industry structure and strategic groupings
  - Porter 5 forces analysis
  - supply chain
  - competition and market share
  - competitors' strengths and weaknesses
  - market trends

Table 1.1 Industry analysis model

Adapted from [http://en.wikipedia.org/wiki/Industry\\_or\\_market\\_research](http://en.wikipedia.org/wiki/Industry_or_market_research)

### *Importance of industry analysis*

Industry analysis can help enterprises to better understand their respective business, in addition to the characteristics of other companies with similar products and services, and bring awareness of their position (i.e., where they “sit” in their particular industry). Industry analysis can also be an important component of effective strategy, and can afford business owners an outlook on possible threats, as well as opportunities, in order to adequately concentrate their resources on the development of unique advantages that may lead to a

competitive edge in the marketplace.

Kenneth J. Cook wrote in his book *The AMA Complete Guide to Strategic Planning for Small Business*: “Many small business owners and executives consider themselves at worst victims, and at best observers of what goes on in their industry. They sometimes fail to perceive that understanding your industry directly impacts your ability to succeed. Understanding your industry and anticipating its future trends and directions gives you the knowledge you need to react and control your portion of that industry. However, your analysis of this is significant only in a relative sense. Since both you and your competitors are in the same industry, the key is in finding the differing abilities between you and the competition in dealing with the industry forces that impact you. If you can identify abilities you have that are superior to competitors, you can use that ability to establish a competitive advantage.”

Environmental trends are divided into two types: the environmental threats and the environmental opportunities. Environmental threats are a negative trend of development by the formation of challenges; if we do not adopt a decisive strategic behavior, this negative trend will cause the company's competitive position to be weakened. Environmental opportunities are using a company's assets to gain a competitive advantage.

## **1.2 Problem discussion**

The international market is a complicated environment which is full of uncertain factors for the foreign investors. For foreign investors, for cultures, languages, ethnic groups and consuming habits, there are different degrees of diversity within the business values and conceptions, to which companies must adapt to be successful in their customized market. How to identify the attractiveness and possibility to be profitable in another foreign market of the

same industry is always very critical for investors in order to decide on the right business strategy. There are several main points that need to be investigated above all others.

- What is the industrial situation for the specific market (China's English education market) and what is its influence on the business strategies?
- What are the advantages for foreign investors and how can they utilize these advantages?

In order to demonstrate this clearly, we chose a typical example for the purpose of our research—China's English training market. This example demonstrates the developing market's complexity and the impact caused by apparent cultural differences. In most English speaking countries, such as USA, Canada and most European countries, enterprises sometimes have a hard time obtaining customer values, the market demands, the education direction and so forth. In addition, the complexity of the political issues and the market environment also need to be considered and deeply investigated, in order to choose appropriate and successful market strategies.

### **1.3 Purpose**

Based on the discussion above, we will try to gain further understanding of business strategies in a developing market with different cultures and environments for foreign enterprises. Hence, our purpose is to try to draw an example of an industry analysis and a customer value discussion for the foreign market. This will be done by addressing the industrial environment and the customer research survey of China's English education market.

#### I.4 Thesis outline

Chapter1	Chaper2	Chapter3	Charper4	Chaper5	Chaper6
Introduction	Literature review	Methodology	Data presentation	Data analysis	Conclusion & finding

Figure 1.1 Thesis outline

## II. LITERATURE REVIEW

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In this chapter, the literature review will be divided into two sections: the first being conceptual and model parts, which will explain the basic definitions related to our research and the models we will use to investigate the industrial environment and the customer analysis of China's English training market; the second being a presentation of the latest data for both the industrial and the customer analysis of this investment destination, and especially for this market in China, which is the conclusion to this analysis for this specific country and market.

### II.1 Theoretical review

The theoretical review will present today's relative concepts and the updated and widely recognized standards of the industrial and customer analysis.

#### *III.1.1 Conceptual*

There are two basic concepts related to this thesis. One is the "industrial environment analysis" and the other a "customer analysis." It is necessary to identify the significance of these two concepts, in order to follow the right methodology to conduct our research.

1. Industrial environment analysis: Is a market assessment tool designed to provide a business with an idea of the complexity of a particular industry. Industry analysis involves reviewing the economic, political and market factors that influence the way the industry develops. Major factors can include the power wielded by suppliers and buyers, the condition of competitors, and the likelihood of new market investors.  
<http://www.businessdictionary.com/definition/industry-analysis.html>



2. Customer analysis: Is a collection and evaluation of data associated with customer needs and market trends, through customer focus groups, a measurement of customer satisfaction, field testing, etc.  
<http://www.businessdictionary.com/definition/customer-analysis.html>
3. Industry classification: The **International Standard Industrial Classification of All Economic Activities** is a United Nations system for classifying economic data. The United Nations Statistics Division describes it in the following terms: wide use has been made of ISIC, both nationally and internationally, in classifying data according to the kind of economic activity in the fields of production, employment, gross domestic products and other statistical areas. ISIC is a basic tool for studying economic phenomena, fostering international comparability of data, providing guidance for the development of national classifications and for promoting the development of sound national statistical systems.  
[http://en.wikipedia.org/wiki/International\\_Standard\\_Industrial\\_Classification](http://en.wikipedia.org/wiki/International_Standard_Industrial_Classification)
4. North American industry classification system: The North American Industry Classification System or NAICS is used by businesses and governments to classify and measure economic activity in Canada, Mexico and the United States. It has largely replaced the older Standard Industrial Classification (SIC) system. However, certain government departments and agencies, such as the U.S. Securities and Exchange Commission (SEC), still use the SIC codes. The North American Industry Classification System (NAICS) is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy. NAICS was developed under the auspices of the Office of Management and Budget (OMB), and adopted in 1997 to replace the Standard Industrial Classification (SIC) system. It

was developed jointly by the U.S. Economic Classification Policy Committee (ECPC), Statistics Canada, and Mexico's *Instituto Nacional de Estadística, Geografía e Informática*, to allow for a high level of comparability in business statistics among the North American countries.

[http://en.wikipedia.org/wiki/North\\_American\\_Industry\\_Classification\\_System](http://en.wikipedia.org/wiki/North_American_Industry_Classification_System) <http://www.census.gov/eos/www/naics/>

### ***III.1.2 Theoretical and study model***

1. From 1979 to the mid 1980s, the industrial environment analysis theory originated from the idea that people start systematically and theoretically evaluating the ability of making investments, return to profit.
2. In 1998, the professor of Harvard business school Michel E. Porter announced his famous competitive analysis five force theory. Porter thought that the external factors of these companies, which were the SITUATIONS in their industry, could internally influence them and in doing so, work together in deciding a given company's competitive ability, which in turn would determine whether this company could survive and even succeed in its competitive industry.

## Assessment of Industry & Competitive Conditions

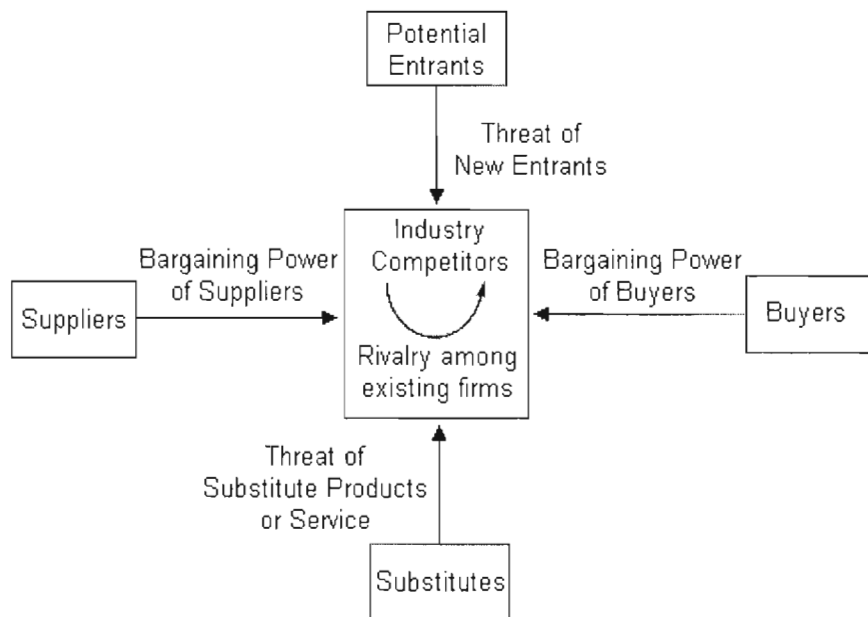


Table2.1 Porter's five forces

An industry is a group of firms producing products that are strategically equivalent or close substitutes.

- Generic competitive forces among existing competitors
- Relative power of suppliers
- Relative power of buyers
- Relative power of potential new entrants
- Potential influence of substitute products

### *The Bargaining Power of Suppliers*

The term 'suppliers' comprises all sources for inputs that are needed in order to provide goods or services. Supplier bargaining power is likely to be high when:

- The market is dominated by a few large suppliers rather than a fragmented source of supply
- There are no substitutes for the particular input
- The supplier's customers are fragmented, so their bargaining power is low
- The switching costs from one supplier to another are high
- There is the possibility of the supplier integrating forwards in order to obtain higher prices and margins. This threat is especially high when:
  - The buying industry has a higher profitability than the supplying industry
- Forward integration provides economies of scale for the supplier
- The buying industry hinders the supplying industry in its development (e.g., reluctance to accept new releases of products)
- The buying industry has low barriers to entry

In such situations, the buying industry often faces a high pressure on margins from their suppliers. The relationship to powerful suppliers can potentially reduce strategic options for the organization.

### *The Bargaining Power of Customers*

The bargaining power of customers determines how much customers can impose pressure on margins and volumes. Customers bargaining power is likely to be high when:

- They buy large volumes and there is a concentration of buyers
- The supplying industry comprises a large number of small operators
- The supplying industry operates with high fixed costs
- The product is undifferentiated and can be replaced by substitutes
- Switching to an alternative product is relatively simple and is not related to high costs
- Customers have low margins and are price-sensitive
- Customers could produce the product themselves
- The product is not of strategic importance for the customer
- The customer knows about the production costs of the product
- There is the possibility for the customer integrating backwards

### *The Threat of New Competitors*

The higher the competition in an industry, the easier it is for other companies to enter this industry. In such a situation, new competitors can change major indicators of market environment at any time (e.g., market shares, prices, customer loyalty). There is always a latent pressure for reaction and adjustment for existing players in this industry. The threat of new competitors will depend on the extent of the barriers put in place. These are typically:

- Economies of scale (minimum size requirements for profitable operations)
- High initial investments and fixed costs

- Cost advantages of existing players due to experience curve effects of operation with fully depreciated assets
- Brand loyalty of customers
- Protected intellectual property, like patents, licenses, etc.
- Scarcity of important resources (e.g., qualified expert staff)
- Existing players' control to access raw materials
- Existing players' control of the distribution channels
- Existing players have close customer relations, e.g., from long-term service contracts
- High switching costs for customers
- Legislation and government action

### *The Threat of Substitutes*

The threat of substitutes exists if there are alternative products with lower prices or better performance parameters for the same purpose. They could potentially attract a significant proportion of the market volume and hence, reduce the potential sales volume for existing players. This category also relates to complementary products. Similarly to the threat of new competitors, the threat of substitutes is determined by factors like:

- Brand loyalty of customers
- Close customer relationships
- Switching costs for customers
- The relative price for performance of substitutes
- Current trends

### *Competitive Rivalry between Existing Players*

This describes the intensity of competition between existing players (companies) in an industry. High competitive pressure can result in pressure on prices, margins, and hence on profitability for every single company in the industry.

Competition between existing players is likely to be high when:

- There are many players of about the same size
- Players have similar strategies
- There is not much differentiation between players and their products; hence, there are more competitive prices
- Low market growth rates (growth of a particular company is possible only at the expense of a competitor)
- Exit barriers are high (e.g., expensive and highly specialized equipment)

Porter's theory about competitive forces has its weaknesses. Until now, it has been considered as one of the most successful and complete theories of the industrial environment analysis. It is based on other theories and business facts which happened in the 1980s or earlier. Therefore, it does not completely include the business competition innovation, such as benchmarking, branding, innovating and technological life circles changes. However, these factors are also critical components of an enterprise's success in the modern business world, so we will also consider these factors in our research example of China's English education market. Porter's five forces state that the high return of investment comes from the competitive advantage in certain industries. It has been widely recognized that the five forces theory plays an important role in business environment analysis and it has been widely used as a competitive environment analysis model.

## 11.2 Industry (China's English training) study review

In this section, we will present the existing and authorized industrial introduction and conclusion of China's English education market, including the investment environment, market estimate and so on. According to the "Problem of China's English training market and solution" by Dajun

Cheng, the English education market is very big. The overall size of China's English education market is very large. The current balance of household savings in China has reached 10 trillion RMB, while approximately 10% of income is invested in education; English and IT are the two most important components. Experts predict that by 2010, China's English training market will be worth 300 billion RMB.

The current English language training market has a domestic market value of about 150 billion RMB. The country's English language training institutions have reached a total of 50,000. China's accession to WTO, the 2008 Beijing Olympic Games and the 2010 Shanghai World Expo, all contribute to make English a critical asset in order to have a successful career in China. China's English training market will remain high for quite some time.

Source: <http://www.jjxj.com.cn/articles/4304.html>

English education can be categorized in four ways:

1. English test training: Mainly involves tests for people going abroad to study or getting professional English qualification. Those tests include TOEFL, IELTS, GRE, college English Test—4(CET4), CET6, adult college entrance exams, Zikao and so on.
2. English communication skills training: Primarily refers to conversational English training.



3. Children's English training: At the present time, refers to the elementary English education for kids within age range of 5-15 years, which is a very large market in China, considering its population and the customer values of Chinese parents.
4. Vocational English: Currently, China's English language training for adults, which teaches them to accept that the main motivation for training, is to work. What they need most is to combine English and professional English training. Right now, the range of vocational English language training is mainly for business in English.

Source: <http://www.jjxj.com.cn/articles/4304.html>

#### *Capital composition of market players and operational characteristics*

China's English training market investors mainly follow the categories below:

- A. Private capital: The English language training business in China is generally run by private capital investment. 90% of the total English training business is private. Private capital has its advantages concerning its own economic characteristics that produce innovation, marketing strategies, management mechanisms, incentive mechanisms, and which are based on market-orientation, and thus on the performance of their vitality.
- B. Public college and university capital: Colleges and universities have abundant resources, such as teachers, hardware, equipment, facilities and student resources. Coupled with their own advantages, intangible assets, such as the name of the university, cause colleges and universities who own English training programs to have some advantage that private schools do not. In the current market, leading English

language training organizations do not come from colleges and universities, for the following reasons:

- a. Colleges have their own education and research tasks.
- b. The operation mechanism of colleges and universities is still in the public and non-market routines, and cannot create enough incentives.
- c. The English college training institutions lack sensitivity to the market, which produces market trends with product stereotypes and lack of innovation.

C. Foreign capital and joint-venture organizations: Foreign capital owned and joint-venture English training businesses have the following advantages:

- a. The English exotic features of those training institutions whereby they can be "original", "authentic", and about which one can make a great fuss.
- b. Foreign or joint-venture training institutions generally have more extensive industrial experience prior to entering the Chinese market. Most of them have second foreign language training experience from other non-English speaking countries around the world, such as learning and teaching materials, teacher selection, and teaching strategies. They have explored and developed their own unique patterns and styles.
- c. Foreign investments and joint ventures training institutions usually have abundant capital to rent the city's prime location, high-grade office buildings and be equipped with a variety of multi-media teaching facilities.
- d. More accurate market positioning and marketing strategy. Foreign investment and joint ventures English training institutions tend to be targeted more, and to be mainly positioned in the high-end market. According to the characteristics of the

target market, they have developed unique strategies in the training location, environment and teaching, which can effectively distinguish them from other domestic competitors, thus creating more tangible and intangible values for customers.

### III. METHODOLOGY

---

In this chapter, the methodology of this research will be outlined and discussed. Considering the nature of our research, secondhand data will be used. We will start with the purpose of this research, and then proceed to data collection, methodological design, and finally the quality standard innovation.

#### ***III.1 Purpose of research***

In 2006, Eriksson and Wiedersheim-Paul stated in their article that the purpose of research is what can be reached and what can be used for the following researches or other practical uses (Martin Tregert, *Managing a brand*, 2003). As we all know, we usually use *exploratory, descriptive, and explanatory* research methods.

- According to Yin in 2003, exploratory methods are suitable for the research questions using “what”, and which have an exploratory research purpose. They can also be used to question an area without prior study.
- Descriptive methods are suited for a research question using “how”, “who” or “where”. They should describe the situation and characteristics based on the existing theory and study models.
- Explanatory methods should be used to test questions using “why” or “how”. Eriksson and Wiedersheim-Paul (2006) advocate the use of these methods to analyze cause-effect relationships. They can also be used to examine the relationship between variables. Based on the purpose of our research mentioned above, we would like to use the second methods—the descriptive methods—to investigate the situation of China’s English education market and industrial environment.

### ***III.2 Research approach***

According to our research, the purpose of our investigation is China's English training market. The major approach of our research is qualitative and the minor approach is quantitative. This will be described further in the next section dealing with method design.

### ***III.3 Research method design***

No research can exist without former theories and study results. In order to test and investigate the situation and dig out the feasibility of this market to bring profit to foreign investors, we need to use certain widely recognized theories to give a qualitative result. But Porter's five forces are only suitable at an industrial level, not at the industry group or industry sector level. Also, they only give a general idea without a quantitative standard, which is not clear enough to give investors a direct idea. In order to make up for this defect and problem, we assumed numbers to this pure qualitative analysis model. According to the results of the collected data, which is the real market and industrial situation, we gave each force a number from 1-5 (5 being the strongest, and 1 being the weakest). This estimation will be given by the research writer according to the collected data (firsthand and secondhand).

Strong: \*\*\*\*\*5

Moderately strong: \*\*\*\*\*4

Average: \*\*\*3

Moderately Weak: \*\*2

Weak: \*1

In the end, we can reach the overall industrial competitive status by calculating the average value of the five forces, which comes from the average value of the factors of each force. Therefore, we can determine the strength, or the feasibility, of China's English education market and its profitability.

*Note: We tried to be objective and the results will be comprehensively concluded from the ideas of five persons with no experience of China's English education market but professionally majored in business research.*

## IV. DATA PRESENTATION

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### *IV.1 Historical and economic presentation*

#### *IV.1.1 Historical introduction (data from CIA)*

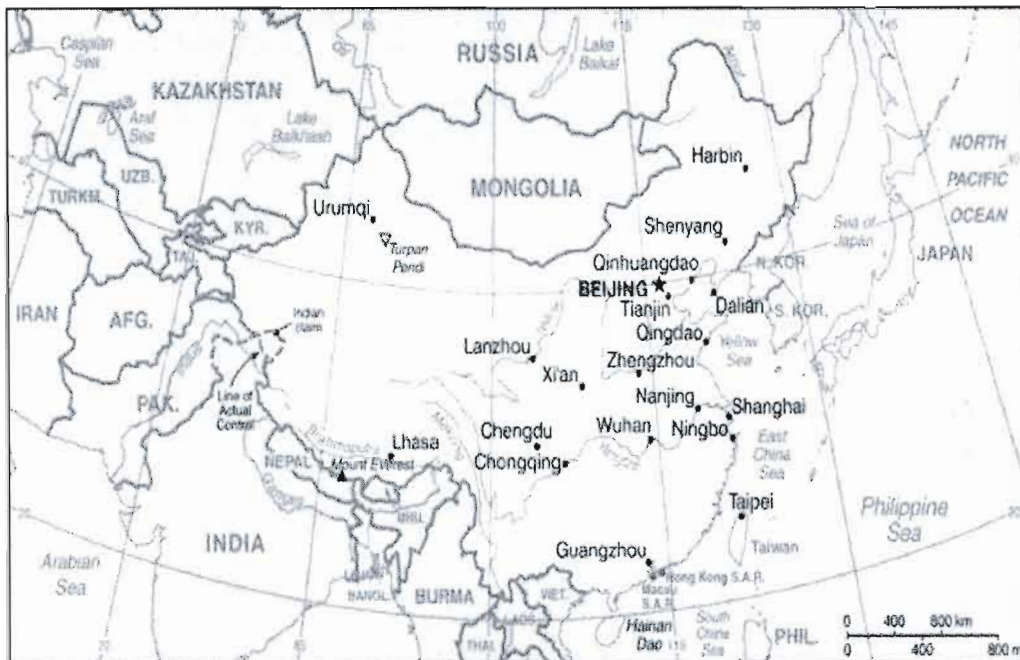


Figure IV.1

**Background:** For centuries, China stood as a leading civilization, outpacing the rest of the world in the arts and sciences, but in the 19th and early 20th centuries, the country was beset by civil unrest, major famines, military defeats, and foreign occupation. After World War II, the Communists under Mao Zedong established an autocratic socialist system that, while ensuring China's sovereignty, imposed strict controls over everyday life and cost the lives of tens of millions of people. After 1978, his successor Deng Xiaoping and other leaders focused on market-oriented economic development and, by 2000, the

output had quadrupled. For much of the population, living standards had improved dramatically and the room for personal choice had expanded, yet political controls remained tight.

**Geographic Area:** *Total:* 9,596,960 sq km (third largest in the world); *land:* 9,326,410 sq km.

**Environment - current issues:** Air pollution from greenhouse gases and sulphur dioxide particles, due to the reliance on coal, produces acid rain; water shortages, particularly in the north, due to water pollution from untreated wastes and deforestation; an estimated loss of one-fifth of agricultural land since 1949 due to soil erosion and economic development; desertification; trade in endangered species.

**Population:** 1,330,044,544 (July 2008 EST.)

**Age structure:** *0-14 years:* 20.1% (male 142,085,665/female 125,300,391)  
*15-64 years:* 71.9% (male 491,513,378/female 465,020,030)  
*65 years and over:* 8% (male 50,652,480/female 55,472,661)  
(2008 EST.)

**Population growth:** 0.629% (2008 EST.)

**Languages:** Standard Chinese or Mandarin (Putonghua, based on the Beijing dialect), Yue (Cantonese), Wu (Shanghainese), Minbei (Fuzhou), Minnan (Hokkien-Taiwanese), Xiang, Gan, Hakka dialects, minority languages (see Ethnic groups entry)

**Ethnic groups:** Han Chinese: 91.5%; Zhuang, Manchu, Hui, Miao, Uyghur, Tujia, Yi, Mongol, Tibetan, Buyi, Dong, Yao, Korean, and other nationalities: 8.5% (2000 census)



**Literacy:** *Definition:* age 15 and over can read and write

*Total population:* 90.9%

**Administrative divisions:** 23 provinces, 5 autonomous regions and 4 municipalities

(Source:<https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>)

#### *IV.1 2 Economic presentation*

In the past 30 years, China's economy has changed from a centrally planned system that was largely closed to international trade, to a more market-oriented economy that has a rapidly growing private sector and is a major player in the global economy. Reforms started in the late 1970s with the phasing out of collectivized agriculture and have expanded to include the gradual liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, the foundation of a diversified banking system, the development of stock markets, the rapid growth of the non-state sector, and the opening of foreign trade and investment. China has generally implemented reforms in a gradualist or piecemeal fashion, including the sale of minority shares in four of China's largest state banks to foreign investors and refinements in foreign exchange and bond markets in 2005.

After having kept its currency tightly linked to the US dollar for years, in July 2005 China re-valued its currency by 2.1% against the US dollar and moved to an exchange rate system that references a basket of currencies. Cumulative appreciation of the RMB against the US dollar since the end of the dollar peg was more than 20% by late 2008. The economic restructuring and resulting efficiency gains have contributed to a more than tenfold increase in GDP since 1978, measured on purchasing power parity (PPP), a basis that adjusts for price differences. In 2008, China stood as the second-largest economy in the world after the US, although in per capita terms the country is still in the lower to

middle-income. Annual inflows of foreign direct investments in 2007 rose to nearly \$84 billion. By the end of 2007, nearly 7,000 domestic Chinese enterprises had made an aggregate \$118 billion in direct investments in 173 countries and regions around the world.

The Chinese government faces numerous challenges in economic development, including:

1. Sustaining adequate job growth for tens of millions of migrants, new labourers to the work force, and workers laid-off from state-owned enterprises
2. Reducing corruption and other economic crimes; and
3. Containing environmental damage and social strife related to the economy's rapid transformation.

Economic development has been more rapid in coastal provinces than in the interior, and approximately 200 million rural laborers and their dependents have relocated to urban areas to find work. One demographic consequence of the "one child" policy is that China is now one of the most rapidly aging countries in the world. Deterioration in the environment - notably air pollution, soil erosion, and the steady fall of the water table, especially in the north - is another long-term problem. China continues to lose arable land because of erosion and economic development. In 2007, China intensified government efforts to improve environmental conditions, tying the evaluation of local officials to environmental targets, publishing a national climate change policy, and establishing a high level leading group on climate change, headed by Premier Wen Jiabao (prime minister of China).

The Chinese government seeks to add energy production capacity from sources other than coal and oil. In late 2008, as China commemorated the 30th anniversary of its historic economic reforms, the global economic downturn began to slow foreign demand for Chinese exports for the first time in several years. The government vowed to continue reforming the economy and

emphasized the need to increase domestic consumption in order to make China less dependent on foreign exports for GDP growth in the future.

**GDP (purchasing power parity):** \$7.8 trillion (2008 EST.)

**GDP - real growth rate:** 9.8% (2008 EST.)

**GDP - per capita (PPP):** \$6,100 (2008 EST.)

**Labour force:** 807.7 million (2008 EST.)

**Labour force - by occupation:** *Agriculture:* 43%; *industry:* 25%; *services:* 32% (2006 EST.)

**Unemployment rate:** 4% officially in urban areas but, including migrants, may be as high as 9%; substantial unemployment and underemployment in rural areas (2008 EST.)

**Imports:** \$1.156 trillion f.o.b. (2008 EST.)

**Exports:** \$1.465 trillion f.o.b. (2008 EST.)

**Exchange rates:** Renminbi yuan (RMB) per US dollar - 6.9385 (2008 est.), 7.61 (2007), 7.97 (2006), 8.1943 (2005), 8.2768 (2004)

**Telephone system:** *General assessment:* domestic and international services are increasingly available for private use; an unevenly distributed domestic system serves main cities, industrial centers, and many towns. China continues to develop its telecommunications infrastructure, and is partnering with foreign

providers to expand its global reach. In the summer of 2008, China began a major restructuring of its telecommunications industry, resulting in the consolidation of its six telecom service operators to three: China Telecom, China Mobile and China Unicom, each providing both fixed-line and mobile services. *Domestic:* inter-provincial fibre-optic trunk lines and cellular telephone systems have been installed; mobile-cellular subscribers are increasing rapidly; the number of Internet users exceeded 250 million by the summer of 2008; a domestic satellite system with 55 earth stations is in place. *International:* country code - 86; a number of submarine cables provide service to Asia, the Middle East, Europe, and the US; 7 satellite earth stations (5 Intelsat - 4 Pacific Ocean and 1 Indian Ocean; 1 Inter-sputnik - Indian Ocean region; and 1 Inmarsat - Pacific and Indian Ocean regions) (2007)

**Internet hosts:** 14.306 million (2008)

**Internet users:** 253 million (2008)

**Conclusion:** China has the second largest economy, measured by purchasing power parity in 2008, with a size of 7.8 trillion USD. Based on the exchange rate measurement, it ranks as the third largest in the world with 7.8 trillion USD, after US and Japan. Its economical development is one of the fastest all around the world, with a GDP growth rate averaging 10% in the last quarter of the 20th century. The growth rate of income per capita remained at 8% in the last three decades and it is the fastest country in the world as regards reducing its poverty.

According to the data of the IMF, taking into account its population of 1.3 billion and its economy after the establishment of the People's Republic of China in 1949, its per capita income still ranks 105 in 175 nations in the world. Its population was officially announced as 1.3 billion, which carries 20% of the world's weight. This is the largest market, especially for daily used products. This population size provides abundant human resources, especially for

laborers, which is the main reason of its low cost production and its advantage in exportation.

In the past 30 years, it has become one of the largest target markets for enterprises overseas.

On the other hand, the gaps between the rich and the poor are still huge. This is one of the most serious problems for social development and one of the most urgent issues for the Chinese government. The Chinese government refers to its economy as a “socialist market led with Chinese characteristics” which is actually the mixed form of both planned and market conducted capitalist economy. The Chinese government flexibly adapts the successful experience and policy of other developed western countries, without firmly following the norm of socialism like some other socialist countries, such as North Korea. One-third of its economy is state-controlled, usually in the country's largest and most important industries and in key areas such as utilities, heavy industries, and energy resources. Some consider it as a type of mixed economy, others as capitalism. However, the fact that there is state ownership of the commanding heights of the economy indicates that China has a form of planned economy with both private and joint venture capital playing an important but subordinate role to the state. These state-owned enterprises control tens of thousands of subsidiary companies. Local city, township and village governments have their own state or collective enterprises at the local level.

Attracting foreign investments in China's economic development has always been a very important mission. After being dormant for so long, foreign investors look forward to China's economic development, like hungry children look forward to drinking their mother's milk. During 20 years of unremitting efforts, attracting foreign capital has been an important issue in China's opening market.

China's investment environment has been significantly improved. It includes both a "hard environment" such as energy, transportation, communications, municipal facilities, and a "soft environment" such as the market, legal systems, and the transformation of government functions.

Though in 2001, cross-border investments globally declined in more than 50% of the cases, foreign investments in China still reached 46.8 billion U.S. dollars, an increase of 15% in 2000. For the ninth consecutive year, it ranks first among developing countries.

1986	102	1485	6.81	54148	333037	16.26	32617	224373	14.54
1987	104	2233	4.86	34218	370884	8.23	26280	231353	11.36
1988	265	5945	4.52	37040	528706	6.89	23596	318066	7.38
1989	276	5779	4.78	64062	558978	11.44	25427	293257	8.38
1990	357	7273	4.91	35782	658611	5.42	45509	248111	13.08
1991	694	12978	5.35	54806	1197882	4.58	32320	438634	7.4
1992	3255	46764	6.7	312125	5612351	5.37	51105	1100751	4.64
1993	6750	83437	8.09	681275	11143668	6.11	205312	2751495	7.6
1994	4223	47549	8.88	601018	8267877	7.27	249080	3376050	7.38
1995	3474	37911	9.39	747113	9128163	8.18	306301	3752053	8.22
1996	2517	26556	10.25	881576	7327642	8.44	344333	4172882	8.25
1997	2188	21001	10.42	493655	5108853	9.68	323915	4525704	7.16
1998	2238	19799	11.3	648373	5210205	12.44	388644	4546275	8.58
1999	2028	18816	11.99	601611	4122302	14.59	421586	4031871	10.46
2000	2809	22347	11.87	800089	6237852	12.83	436380	4871481	10.77
2001	2806	26140	9.97	751487	6918485	10.86	443322	4687759	9.46
2002	3363	34171	9.84	815647	8278833	9.85	542382	5274286	10.26
2003	4060	41981	9.88	1016147	11508889	8.83	419851	5350457	7.85
2004	3525	43684	8.90	1216516	15347895	7.93	394085	6062398	6.50
2005	3741	44031	8.50	1351150	18908398	7.15	306123	8032169	5.07
2006	3205	41473	7.73	1294364	19372734	6.22	285109	8302051	4.55

Figure IV.2: American investment to China (1986-2006)

Source:

[http://www.showchina.org/gqbg/2008/zgwstzbg/200807/t196107\\_2.htm](http://www.showchina.org/gqbg/2008/zgwstzbg/200807/t196107_2.htm)



The popularization of education is the basic and necessary condition to promote a national economic development and a social modernization. This is also very critical for the English training market. Compared to developed countries, the quality of China's basic education is comparatively high, but secondary education (e.g., college and university) still has a long way to go before it catches up. For example, China's middle schools' gross enrolment rate of 83 percent in 2007—17 percentage points lower than the average in developed countries (99%) and 23% of the higher education enrolment rate—is 43 points lower than the average in developed countries (67%).

Source: [www.eastday.com](http://www.eastday.com)

With open market trends, globalization and education, the language training industry has a huge competitive potential for all the internal and external players. The high level of human resource shortages is a serious impediment to both the economic and social development of China, which depends mainly on cheap labor and capital gain. The science and technological contribution rate is less than 40%. However, the contribution rate of Europe, America and Japan in the science and technology economical development accounts for roughly 70-80%.

China's manufacturing labor productivity was only 4.38 percent of that of the United States, 4.07 percent of Japan, and 5.56 percent of Germany. Backward technology and talent scarcity are the main reasons behind higher education demand. China's working population (2000) with a college education represents a ratio of 5%, while it represents 50% in Canada, 47% in Japan, 40% in Korea, and 39% in the United States. The senior technically-skilled workers accounted for only 3.5 percent, while in developed countries they accounted for 35%. The number of graduates is very low; in 2007, the number of graduate students was 120 million, representing 6% of the students in school, while in the United Kingdom they accounted for 21.8%, and for 18.8 percent in France.

Source: [www.eastday.com](http://www.eastday.com)

Therefore, higher education in China should continue to develop. Meanwhile, language and communication skills are one of the key needs that the education industry has to satisfy, due to the growing demand of this globalization trend.



## ***IV.2. Industrial Presentation***

### *IV.2.1 Definition of English training and the English training market*

English training refers to English education, other than academic education for degrees and diplomas, through the establishment of training organizations to offer English training for professionals, to facilitate practical communication, and to provide knowledge of English writing tests.

The English training market refers to the market of offering English training for profits.

Source: *2009-2010 China's English Training Market Analysis and Development Prospects*

### *IV.2.2 Industry's dominant economic traits*

#### **1. Market size**

According to statistics, the size of China's English training market is around 15 billion RMB, almost equivalent to the 2.1 billion USD, i.e., 0.1 % of the whole national production value, close to that of a medium-size city's annual output value. The English training program providers, all around China, have reached 50,000. It is predicted that by 2010, the value of China's English training market will be 30 billion RMB, i.e., about 4.2 billion USD. Huidian market research reports show that in 2007, China had nearly 300 million Chinese English consumers, and more than 50,000 English training institutes.

Source: <http://bbs.education.163.com/bbs/kaoyan/135311947.html>

## 2. Market growth rate

According to *Statistics China*, the growth of China's training market kept an average growth rate of 57.2 % from 2004 to 2008, and continues to grow. According to experts, a market value of 30 billion RMB is predicted for this industry. We refer to this kind of growth rate, in any industry, as a "dramatic growth." China's accession to the WTO, the 2008 Beijing Olympic Games, the 2010 Shanghai World Expo and other events is a positive factor that will definitely promote the growth of the English training market in China in the next two years, which will then account to a considerable period of time to maintain such a rapid growth. Only in Beijing, you will find around ten new investors who jump into the river to struggle for opportunities.

Growth of China's English training market value

Year	2004	2005	2006	2007	2008
Market size (billion )	2.6	5.3	7.4	10.3	15.0
Growth rate (%)	*	103.8	41.5	39.1	45.6
Average growth rate (%)	2004-2008				57.2

Figure IV.3 China's English education market size and growth (2004-2008)

(Source: *Deeper investigation report of English training business*, CCID)

(<http://www.ccidreport.com/report/content/3100/200811/102400.html>)

Online education in China is still a relatively novel way for customers to pay major attention to it. In the last ten years, online education in developed countries such as America, Europe, and even Japan, has become very popular and an efficient education channel. The students being reached by online education are in many ways as new as the medium. The average growth rate of enrolment to US universities is estimated at 33% yearly (Bocchi, et al., 2004).

Recently, this trend has been growing in China. We stipulated the data of the online English training market value for the period of 2004-2008, using the business model studied in this research.

Year	2004	2005	2006	2007	2008
Market size(billion )	1.19	1.53	1.89	2.90	4.01
Growth rate (%)	*	28.82	23.42	53.33	38.23
Average growth rate (%)	2004-2008				36.03

Figure IV.4 Growth of online English training market value in China

(Source: *Deeper investigation report of English training business*, CCID)

(<http://www.ccidreport.com/report/content/3100/200811/102400.html>)

### 3. Number of competitors

According to a report on [www.renmin.com](http://www.renmin.com), the English training providers all around China were

50,000 in 2005 and had a total value of over 20 billion in 2008 (*Source: Sohu Education*). For research purposes, we will assume this number to be 120,000. As a matter of fact, the accurate number of competitors in this industry is very hard to collect. Let us take metropolitan and large cities, with Beijing as an example. How many English training institutes are there in Beijing? It is possible that even experts in this market do not know the exact number. Experts have stated that in the Haidian districts alone, there are probably 500 organizations in this market, and about 10,000 in all of Beijing.

An industrial source indicates that the number of new investors is 80 per month while another 60 shut their doors every month. In absolute terms, the English

language training market is still in a state of rapid growth. However, in Beijing there are around 50 high-profile, well-effective English language training institutions, but there are only around 30 players that have the potential of sustainable development, as far as industrial experts are concerned.

(Source: *Chain Store & Franchise Development Survey Report for China's education industry in 2006*)

#### **4. Concentration**

According to the marketing theory, any industry will experience a process of concentration, integration and centralization, at a certain point in time, when the industry becomes hot and popular. Currently, China's English training market is still in a fragmented situation. Local brands are dominating in their territories, with comparatively efficient access to local markets and a focus on local strategy. Considering the nature of the homogeneity of the English training services, the one that has cross-regional operation capability, excellent quality, strong teaching materials, proper management systems, and abundant capital resources, will obtain a good reputation and a great market share; while the one with no core competitiveness will be beaten out of this market, especially in large cities where giants' tentacles can reach. For medium-sized cities (with urban non-agricultural population between 0.2 million to 0.5 million) and relatively small cities, the competitive pressure is relatively small. The number of foreign language training market institutions is such that the industry's concentration is not that high, but increasingly competitive. Some, larger in scale, rich in experience, and well-equipped in the market, gradually become more powerful. However, those small training institutions which operate home-workshop style, due to lack of integrity and quality of teaching, start losing their living space.

The English language training industry is mainly composed of four kinds of forces: The first one are English language training institutions which are an extension of the major colleges and universities; the second are foreign

capitalized education and training institutions, such as the British Trust education, Wall Street English, and their relatively high-end target customers; the third are well-known domestic training institutions, such as New Oriental, the new routes, Li Yang Crazy English, etc.; the fourth are some low-end and medium private training providers with huge numbers. The larger the city is, such as Beijing and Shanghai, the larger the market is, and the more players you have.

(Source: *Chain Store & Franchise Development Survey Report for China's education industry in 2006*)

## **5. Market segment**

Based on the type of service and content of training, the whole industry is segmented into four major parts:

- A. English examination training: English exam training is the training program designed for test purposes. In the last 30 years, and especially the last 15 years, studies overseas have kept being prosperous in China. Since Xinhua News Agency released the news, China has become the world's largest market of overseas students. In the last 10 years, there has been an average of 25,000 people across the China's national border who were furthering their education abroad. Data shows that it has been the fifth consecutive year that the number of Chinese students studying abroad at their own expense has exceeded 10,000. English tests for studying in English speaking countries or English conducted programs mainly include series of TOEFL, IELTS, GRE, and GMAT. Domestic English test series contains the CET4, CET6, College Entrance English tests, adult college entrance exams, etc. In recent years, and taking into account China's considerable population, competition for college entrance exams, graduate school and the work force is as fierce as a "million soldiers crossing a single-plank bridge."

- B. English communication skills training: The survey found that because of the actual situation in China, caused by the exclusive exam education system, the English training market has changed a lot. 93.6% of those who responded to the survey considered the practical application of English as a future trend of the English training market, and more than 80% of those who responded thought that employers who have English language requirements for their employees, highly cherish the value of practical talents such as oral communication skills and literacy. 9.8% of the Chinese students educated in the Chinese school system acknowledge that even though they obtain passing grades in English studies throughout their schooling, from elementary school to college, they still have problems, especially in conversational English. By learning written English almost exclusively, and focusing on grammar and punctuation rules for testing purposes only, Chinese students have been “stunted” in their English evolution.
- C. English training for children: It is estimated that the current children's English training market size has reached hundreds of billions of RMB, and that annual expansion rates are around 20-30%. The children's English training segment takes about 70% of the market share in the whole English training market. Enormous gold mines attract huge numbers of domestic and foreign training institutions to jump into this river. A recent online survey shows that over 60% of parents are dissatisfied with the children's English education in China, and that as high as 82.88% of parents believe that children should be instructed by way of the “English immersion”, “Condition English Education” and other advanced foreign language training methods, in order to change the status of English education in China, which is “dumb English”. It is reported that more and more parents try to rear their kids so that they will

have English listening and speaking ability. Presently, most of the kindergarten and baby day-care organizations, in mainland China, have started a kindergarten curriculum in English, and there are a lot of kindergartens that have been named “bilingual kindergarten.”

- D. Vocational English training: China is the largest market for a lot of industries all around the world, and this globalization requires the use of English for employment. In comparison to other countries in Europe or America, China has a larger potential market, with its official language being Mandarin Chinese—different from English or other written languages. At the present time, English communication is one of the main qualifications required in China, which makes English one of the most important factors for job seekers. English training is not solely for use in business, but for use in other areas such as nursing, administration, engineering, and tourism. The vocational English training market continues to heat up due to the demand from the existing job or career development plans of trainees, so the purpose is clearer and the growth is more sustainable. The target market is for people who intend to look for jobs, be better accustomed to the workplace, be promoted, and get higher salaries. It has been stated by a director of a certain well-known training institute that one of the fastest-growing products in the present market is TOEIC. The TOEIC exam has been widely recognized and applied in more than 8,000 multinational companies and institutions all over the world. It becomes a concern for international business management and personnel recruitment, promotions, overseas personnel arrangements and so on.

(Source: Dajun Cheng, *The problem and strategy of China's English training market*)

According to market analysis, four English training market segments are targeted in different age ranges.

1. The English exam training program mainly targets students between the ages of 15 to 25 years old, which is considered to be school age. Most of the students are people who are still in school and at different levels, such as junior school, high school, college, or graduate school.
2. Conversational English training programs, based on the practical need in daily English communication, attract customers from 10 to 35 years of age, which is the largest age range.
3. Vocational English training attendants are in the age range of 23 to 35 years old, which is the age of working adults.
4. The English training programs for children target children aged 5 to 15 years old.

(Source: Dajun Cheng, *The problem and strategy of China's English training market*)

## **6. Industrial Motivation**

Fundamentally, the law of demand drives the market for English training in China. In China, especially in Beijing, numerous colleges and universities can be found, multinational corporations are stationed, and frequently, international Business Conferences are held.

The English training market is in rapid growth. On the other hand, the demands of students are showing new trends in the pursuit of popular English language training programs with personalized, diversified characteristics. According to a survey of Beijing statistics, Embassy officials, foreign students, foreign staff and other foreigners approximately amount to 5 million people, accounted for as 0.5% of Beijing's population. This number will grow from 0.5% to 20% in the next 10 years, a growth of 40 times. Therefore, the growth requirement for foreign language service staff will need to grow accordingly. So how do we make up the shortfall? Currently, foreign language talent can be divided into two groups. One is made up of foreign language professionals, who are people



with excellent communication and conversational skills. The other is made up of people who possess both “foreign language + professional knowledge.”

Employers are more willing to recruit from the latter group. Therefore, cultivating professionals with comprehensive foreign language ability will become the future development trend of foreign language training.

## **7. Life cycle stages**

For most Chinese people, English training is not something new. It has been around for almost 10 years, but this market is still in its infancy. As mentioned above, the space for growth of this English training in China will remain huge for the next ten years. The size of China's English training market is around 15 billion RMB, almost equal to USD\$2.1 billion. It is predicted that by 2010, the value of China's English training market will be 30 billion RMB, about USD\$4.2 billion. There is no real law that directly conducts or constrains this industry. In this massive market, the quality of training programs is extremely unbalanced. Some foreign investors with excellent reputations, experience, and financial resources, such as EF, can offer customers comparatively high quality programs. Some local giants which have been in this industry, like New Orientation, occupy the largest English exam training market share and are seen by most of their customers as being both efficient and positive. Because of the rigid English education model and an imperfect training system, the formal English education system in the public schools will never satisfy the demands of English learners, who want to really master this most popular language all around the world. The market does exist, and will become more and more lucrative. In this market, the threshold is relatively easy to be crossed by newcomers, considering the low capital requirement and unclear industrial standard. It is still in a natural selection period, which is referred to as “all heroes struggling in the same fort.” The next ten years will be a period of reshuffling and the market sector with the strongest trend and customer value will survive.

## **8. Technological change**

The product being discussed is the English training program, which is a service offering more than just the knowledge of the English language. The knowledge of English is quite stable. How to convey the knowledge efficiently to students is the determining factor on whether or not the program will be successful. The key factors include training concepts and training channels.

(Examples: classroom, online, etc.).

## **9. Capital requirements**

Relatively small, for a one-unit owner-managed English training enterprise; much greater for the ownership of the leading English training franchises, such as New Orientation, Global IELTS, EF, which have a total registered capital of a couple of billion USD. The ownership of one franchise under those big names requires 200,000-500,000 RMB, which is about 35,000-70,000 USD. So, to establish one medium or small English training institute requires at least 35,000-50,000 USD, which is not that high for many Chinese investors.

(Note: The data for these sections come from the official website of English training providers.

Please see the Table V1.).

## V. DATA ANALYSIS

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### V.1 Analysis frame definition

In this section, we try to evaluate the competitive intensity of China's English training market by a certain methodology. Porter's five forces is the key tool to use, the tool previously used in another analysis being comparatively too general and conceptual and not clear and quantitative enough. We will assess every factor which impacts the competitive forces with a rate by numbers, as reference. The standard is as follows:

Strong: \*\*\*\*\*5

Moderately strong: \*\*\*\*4

Medium (average): \*\*\*3

Moderately Weak: \*\*2

Weak: \*1

### V.2 Analysis of Porter's forces

#### *V.2.1 Threat from new competitors*

The competition will be higher if it is easier for new investors to enter the industry. This means that the higher the barriers are to enter, the lower the competition will be. Companies often find it difficult to identify new competitors. Knowledge about the new investors, in an industry, is important because these new competitors can threaten the market share of existing competitors, because they bring additional production capacity. The likelihood that firms will enter an industry is in function of two factors. The potential and existing competitors all have the power to impact the competition and profitability of the industry. The competition will be higher if it is easier to enter a certain industry, which means that the barrier to enter this industry is comparatively low. Newcomers might bring new knowledge, capital, new business deals, and new management skills and so on. It may also change the

situation of the market, such as market shares, prices, and customer loyalties. According to Michael Porter's theory, the barrier of entry for certain industries depends on the factors below:

- **The economic scales of operation (the minimum economical size of profitable operation)**

Competitive force: moderately strong—\*\*\*\*4

In China's English training market, the minimum economical size of profitable operation is relatively small. The basic operation capital requirement depends on the business models, magnitude of business, location (city, location in cities), and training environment (hardware, facilities and so on). Investors can choose to use their own brand and establish their own training centers, or choose to join a franchise with a big name. The ownership of one franchise under those big names requires 200,000-500,000 RMB, which is about 35,000-70,000 USD. So, to establish one medium or small English training institute requires at least 35,000-50,000 USD, which is not that high for many Chinese investors. Considering the complexity of the Chinese market, we use the example of English training in the metropolis (Beijing) for a concrete analysis. According to the data of the different franchises and brands, the basic capital requirements are as follows:

	Capital requirements(USD)	Business type	Start time	Franchises
Crazy English	30,000-40,000	Franchise	2003	100
Global IELTS	50,000-60,000	Franchise	1997	70
Wall Street	65,000-300,000	Franchise	2000	11
Daily English	70,000-120,000	Franchise	1998	30
New name (traditional)	30,000-40,000	Single	N/A	1

Table V.1 Capital requirement of Franchise in China

Sources: <http://www.crazyenglish.com/>

<http://www.ielts.com.cn/hulzt/ieltsenglish/who.html>

<http://www.wselearning.com/>

According to the data listed above, we can tell that the basic capital requirement to join this industry is different depending on the business model, business size, and quality of service. The range is comparatively large, from a couple of 10k to a couple of 100k USD. The minimum price of a ticket to get on board is about 30,000-40,000 USD, which is not a lot for Chinese investors. So we can conclude that it is easy to get into this industry, taking into account the capital requirement barriers.

- **Cost advantages of existing players, due to experience, curve the effects of operation with full depreciation of assets.**

Competitive force: strong – \*\*\*\*\*5

In the English training market, the experience of running businesses is as important as in any other industry, but the key factors to becoming successful are the business model and how to convey the knowledge to customers. The experience of running an English training center is easy to duplicate. The asset depreciation in this industry is sort of slow, depending on the type of asset the training providers have. Like the traditional education business organizations, most facilities and assets for use are office supplies, such as TV's, projectors, tables, chairs, and other furnishings. These assets do not depreciate a lot with time.

- **Brand loyalty of customers**

Competitive force: moderately weak—\*\*2

According to the 2007 questionnaire on [www.sohu.com](http://www.sohu.com), the most popular brands with brand loyalty in China's English training market are:

				
New oriental	Liyang Crazy English	EF English Education	Longman English	Global IELTS
				
Tsinghua Children's English	Only Education	Wallstreet institute	BFSU Training collage	Communication university training center

Table V.2 Well-known English training businesses in China

Source: SOHU survey of 2007 most welcomed English training brands

<http://learning.sohu.com/s2008/6232/s261294855/>

These names are the brands that have been acknowledged all across China, especially in big urban centers, such as Beijing and Shanghai. According to the questionnaire of this report, around 90 % of customers said they would choose big names. Customers trust brand names, their teachers, and a better environment. That being said, it also depends on the different locations, because although these popular names have been acknowledged in China, the local brands in different cities also carry large market share locally. For example, the Future English training school and the Seder English training school are two popular English training providers in Dalian, a medium sized modern city in China, but no one knows these two names in Beijing. They only have the ability

to be local “royal men” but not to be the “king” of the whole country. The customer loyalty in this industry depends on different locations and different training categories.

We can conclude that the customer loyalty to famous training providers is strong in big cities, such as Beijing and Shanghai, but not as strong in other cities, where it is easy to switch providers. New investors can utilize new training models to advocate their own advantage to struggle for opportunities.

- **Protected intellectual property like patents, licenses, etc.**

Competitive force: strong—\*\*\*\*\*5

There is no protected intellectual property like patents and licenses in this industry. It is hard to weed out an obvious and efficient way to become a distinct and successful training provider.

- **Scarcity of important resources or raw materials.**

Competitive force: strong—\*\*\*\*\*5

The impact on new investors jumping into China’s English training market is not obvious. The resources in this industry are good-quality teachers. With the opening of the country’s gates, the English talent pool is not as scarce as before. It is easier than formerly to find English teachers anywhere; including foreign English teachers with English as their mother tongue, but the high quality teaching materials with their own styles is still scarce. This is why some famous English teachers of New Oriental are very popular in this industry, and usually have extraordinary fees for their classes. Generally speaking, it is a comparatively small barrier for new competitors to cross.

- **High switching costs for customers**

Competitive force: strong—\*\*\*\*\*5

The switching cost for customers is not high in this industry, considering there



are no equipment or high costs needed to follow a certain way to study English. Also, how to teach English is common knowledge easy to duplicate by any training providers. Some teachers with highly positive comments even work part-time in different training institutes at the same time with different schedules. So, customers can choose their favorite program anytime. This fact also tells us about an easy way to enter the market.

• **Legislative and government action**

Competitive force: strong—\*\*\*\*\*5

There is no clear policy or regulation to certify an English training provider in this industry. Although, in the last twenty years, China has encouraged private businesses to enter in the education and training industries, whatever their local capital or foreign investment, which has created a lot of opportunities for the existing or potential investors.

**Conclusion:** By looking at all the factors we have mentioned above, we will try to average the whole degree of rivalry in this competitive force.

The economy scales of operation	****4
Cost advantages of existing players due to experience curve effects	****4
Brand loyalty of customers	***3
Protected intellectual property like patents, licenses, etc	*****5
Scarcity of important resources or raw materials	*****5
High switching costs for customers	*****5
Legislation and government action	*****5
<b>Threat from new competitors in the marketplace</b>	<b>4.4 (Moderately strong)</b>

Table V.3 Estimate of threat from new competitors in the marketplace

From the analysis above, the entry barrier for this industry is approximately 1.4, which is comparatively low for new and potential players. Potential investors with capital could enter a local market easily, but would find it hard to jump into a bigger market like Beijing and ensure their success. Because of the low barrier for new players, there is a high threat which makes this industry more competitive.

### ***V.2.2 Bargaining Power of Suppliers***

The supplier will be more powerful if he can bring forward the true threat of integration, its concentration of supplies, or if there is a significant cost to switch suppliers. Even the buying industry can hinder the supplying industry in its development.

First, we need to establish whether there is a supplier for the English training provider, and who the English training providers are. Everything depends on the business models and how the training providers convey their service. For instance, if the training provider is an online training provider, the work place and the training channel should be the internet and they should find a stable web server and have an outstanding website, in order to obtain the interest of customers. If the provider needs to set up a physical institute with a classroom and teaching facility, it should rent out an office and purchase office equipment.

Of course, these “raw materials” are not specific or hard for training providers to obtain, as they are available for a lot of other industries. The unavoidable and critical suppliers in this industry, no matter which business model they follow, are the people who have the knowledge of English and know how to “transfer”

this knowledge to the end-customers. English teachers are professionals, as well as service providers for schools.

- **Supplier concentration**

Competitive force: weak—\*1

In China, the most abundant resource is labor, and that holds true also as regards English skills. With economical globalization, foreign language proficiency is a necessary asset if international exchange and cooperation is to be successful. There are a considerable number of students choosing a foreign language major every year. However, among all foreign languages, employment opportunities for English majored students are limited compared to other languages.

Because 90% of Chinese students choose English as their first foreign language to study after their mother tongue (Chinese), English is not unfamiliar to most of the educated population in China. Furthermore, 90 % of students who major in foreign languages choose English as their specialization. However, 98% of interview subjects still have problems communicating efficiently in English. In recent years, due to the added attention to English studies from education institutes and students, Chinese graduates have improved their English skills. So, there is even more competition for English majored students to survive in the employment market in their usual categories, such as translators and teachers.

According to relevant information, among translation positions, only a small portion of vacancies are for English positions; the vast majority of jobs are for language skills in Japanese, Korean, Spanish, Portuguese and other languages. Graduates with a bachelor's degree in English complain that although there seems to be a very bright future for English majors, the bridge is actually too narrow for them to cross the river, compared to others having both English

skills and another major, such as management or engineering. The employment opportunity for English majors is overstated to some degree; however, high-quality English skills are still in urgent demand.

With the growth of international exchanges, human resources have become much more abundant now, allowing many foreigners to come to China for business, tourism, and other purposes. This old charming country with more than 5,000 years of history, with the largest markets all around the world, and with many mysterious cultures, has become very attractive to foreign talent, including English native speakers and teachers. It is very hard to tell how many foreign English teachers there are in China, but it is very common to see them in big cities all around China. Nevertheless, the ones who speak excellent English and also know how to teach English to the Chinese are still scarce in this market.

Over the last 60 years, 1,460,000 foreign students (cumulatively) have been studying in China. In 2007, over 195,000 foreign students from 194 countries all over the world came to China to study languages, cultures and other topics, and were located in 592 colleges, universities, and research institutes in 31 provinces, autonomous regions and municipalities. The number of foreign students in China in 2007 increased by 17.29%, and in 2008, it exceeded 200 000 for the first time historically. Among all countries, South Korea, United States and Japan ranked top three for foreign students in China.

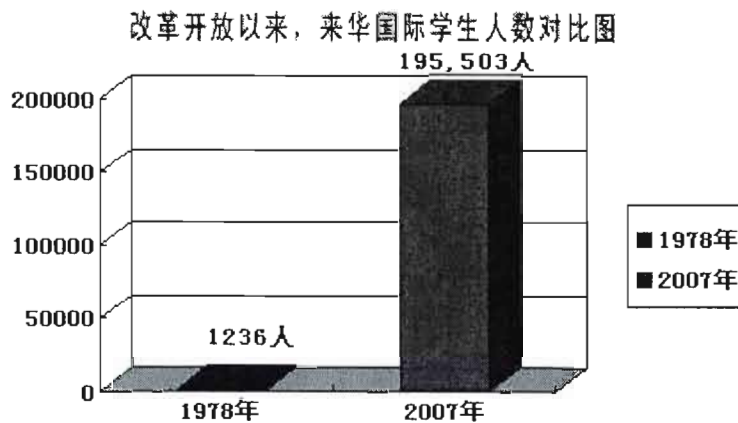


Figure V.1 Foreign Students in China (1978-2007)

Source: <http://xnwcvs22dzol.cn/edoas/website18/62/info1224809754282362.htm>

Suppliers have relatively little power in this market, except those who are well-known or popular among English learners.

#### • Substitutes

Competitive force: weak—\*1

In this industry, there is an abundance of English teachers with duplicable knowledge (see last point).

#### • Cost of switching

Competitive force: weak—\*1

The cost of switching is not high. The training institute can easily change its teachers or switch to others if necessary.

**Conclusion:** Substitutes are not very powerful in this industry, when one examines the analysis above; they can become stronger if the training business needs a specific talent, teaching experts with a good reputation, and unique specialties.

Supplier concentration	*1
Substitutes	*1
Cost of switching	*1
The suppliers customers are fragmented	*1
Possibility of forward integration by suppliers	*1
<b>Bargaining Power of Suppliers</b>	<b>*1</b>

Table V.4 Estimate of competition from suppliers

From this table, we can tell that the supplier which mainly refers to English teachers and teaching experts has weak bargaining power in this industry.

### ***V.2.3 Bargaining Power of Customers***

The customers in this industry are the people who want to take English training. The power of the customer can impact the relation between enterprises and markets by affecting the price, quality, product volume, and therefore, indirectly affecting the profits and volume of enterprises. When the customers are more powerful than the suppliers, under certain circumstances, such as where there is one buyer and many suppliers for example, the buyers can set up the price and choose their favourite provider based on certain criteria. The customers of this English training market are individual English learners, who spend money to take English training in order to improve their English.

#### **• Concentration of customers**

Competitive force: weak—\*1

If there is a concentration of buyers buying a large volume, the customers have a large bargaining power. Theoretically, 80% of this market is a business to customer model (B to C), which means that English training institutes provide English training programs to many individuals. Some English training institutes also offer English training for companies or other organizations, such as government departments. However, there are some English training institutes

with a good reputation and a lot of strength in certain training categories that have power in the eyes of their customers, such as New Oriental and Global EITLS.

The New Oriental Education & Technology Group was set up on November 16, 1993, in Beijing. It started in Beijing at the New Oriental School with foreign language training and basic education as the core, then, with short-term training systems, the higher education system, the basic education system, the vocational education system, Education and R & D systems, consultative systems abroad, the cultural industry systems, and other technological industries-developed platforms.

After 15 years of hard work and starting from a short-term training system, New Oriental School became a base for English examination training for studying abroad, domestic exam training, children's English training, multi-language training, IT education and other fields. It has, with 19 New Oriental Schools, the largest and most prestigious education and training branches in Beijing, Shanghai, Guangzhou, Wuhan, Xi'an, Tianjin, Nanjing, Chengdu, Chongqing, Shenyang, Shenzhen, Changsha, Jinan, Hangzhou, Harbin, Xiangfan, Taiyuan, Toronto, Montreal and other places. By May 2005, New Oriental had a total of 250 million trainees. 750,000 people took its training program in 2004. New oriental was originated by Yu Minhong.

Yu Minhong started with English exam training for students who wanted to further their education abroad and to take tests such as TOEFL, GRE, and GMAT. The teachers of New Oriental dug out a lot of “sub-laws” from the professional tests by discrete analysis. The special courses given by New Oriental give a professional introduction and even an imitation of real tests. By taking the course, examinees could largely heighten their test scores. In the last ten years, it has been sort of a “compulsory” step to take for college students who want to study overseas, and for those who want to improve English.

For the past ten years, before New Oriental expanded its branches to other cities, during every winter and summer vacation, millions of students from other cities would go to Beijing New Oriental to take their classes. New Oriental School provides training programs, including: TOEFL, GRE, GMAT, TSE, LSAT, IELTS, BEC, TOEIC, CET-4, 6, Public English Test (PETS), "New Concept English", English grammar, improved hearing, voice, quick, "English 900", Advanced Interpretation, English writing, middle school English, and many children's English language trainings. Its competitive advantage in the English training market is for English test training programs. It is obvious that it is number one in its category.

For customers of some English test trainings, like TOEFL, GRE, and GMAT, New Oriental is the first choice and the only choice in order to succeed in their critical English tests, which will probably determine their future. In this case, the customers have limited powers.

In the case of many other English training providers without resources and reputation, the customers have a very strong bargaining power. In a large part of China and in a large number of cities, the customers have the right to choose their English training providers.

• **The supplying industry comprises a large number of small operators**

Competitive force: moderately strong—\*\*\*\*4

As mentioned previously in this report, the number of English training providers in China is not easy to count up. One thing is sure: there is a huge number of small English training providers in this market, all over China. Someone said that, in Haidian districts alone, there are probably 500 organizations in this market. It is said by experts that there are about 10,000 in all of Beijing.



- **The supplying industry operates with high fixed costs**

Competitive force: moderately weak—\*\*2

The fixed cost of an English training provider is on average about USD\$40,000 as previously mentioned, which is not that high in the modern business world. But the fixed operation costs will be higher if suppliers need to set up a new training model which is different from the existing business models. For example, if the providers need to develop their online training software to process their online English training, it will bring a much higher fixed cost. So, generally speaking, the fixed cost for an individual training provider is not high.

- **The product is undifferentiated and can be replaced by substitutes or by switching to an alternative product that is relatively simple and is not related to high costs**

Competitive force: moderately strong—\*\*\*\*4

There are a large number of English training institutes, and different ways to learn English. What is the best way to learn English is always a question being asked by experts and all the English learners. But there is not a definite answer to this question. All successful English education developers have their own answers. Any theory makes some sense to some degree, and anyone who can persuade his customers can win some market shares and become successful in a given time. Liyang Crazy English is a typical example. It advocates that English learners should recite English expressions and sentences as fast as possible, as loudly as possible, and as clearly as possible. It is a little extreme at times, actually crazy, which is where it gets its name from. It was designed to offer solutions to the problems Chinese students were having when learning English.

So, it has been popular for a while.

New conception English is based on a famous English textbook called new conception. It has been designed with new text content and detailed grammar structures, which are suitable for the elementary English learners. It has been

one of the most popular English textbooks for the last ten years in China. These two types of English training both have their advocates and are both successful in some territories. So, customers do have the choice of different products. What is more, for some English categories, such as children's English, there are a large number of training providers offering different training programs.

The cost for customers to switch training programs is not high. So, from this perspective the customer's bargaining power is high. As we all know, for individual customers, most of the English training programs do not take long to complete, nor offer degrees. It usually takes a couple of months, and the training can be switched easily if the customers are not satisfied with the current training they are taking. The switch cost is not high and that is another reason why the situation is very competitive in this market.

• **Customers have low margins and are price-sensitive**

Competitive force: moderately strong—\*\*\*\*4

Since this industry is mostly a B to C business, customers have no margins, but it is really price-sensitive. For the past ten years, since it was developed, there have been a large number of English training providers all around China. Like other industries, there was a large margin and ambiguity for price, since English training was still a new thing for most Chinese people. With time, more and more investors jumped into this river. People still needed to realize that the English training industry had a large margin and that the price needed to be controlled. Many thought it was still in the expanding period, because of the huge potential market in China, but training businesses all adjusted their prices and made it clearer, due to competition.

All the big institutes with good reputations dropped their prices in the last five years. According to an out source, English training, especially conversational English training programs, still belonged to high-end consumers and targeted white-collar businessmen, not your average everyday person. The prices

required are often high for those who need those training programs but cannot afford them. This has been the new trend for the past 3 years.

For English learners, the most promising thing is to take high-quality English training services with lower prices. Some English training institutes drop their prices but still maintain a good quality service. For example, "Daily English", which is a famous English training provider, dropped its prices largely in 2005 but the quality of teaching, the teachers, and the support services are still on the rise. To strengthen the mechanism for the exam, all the participants can register to receive the corresponding curriculum books, audio-visual products and other concessions. With the entry of foreign investors, the competition becomes more and more fierce. Competitive prices will be a necessary trend in the near future.

But now, the pricing strategies are only hot for low end players, which are small and medium local English training providers, compared to reputable larger players with a high quality teaching staff, excellent facilities and capital support for promotion. When talking about customer power, in regards to pricing, it depends on the product lines and level of service. The bargaining power of customers to high end training providers, such as EF, and New Oriental, is low, but to the low end market in local competition, the power of customers due to price sensitivity is really high. Some big names have started to drop their prices already. Although it did not cause a strong superficial reaction, we can use the term "turbulent undercurrent" to describe the mood of the current number of English language training institutions. After all, the prices are bound to directly affect the same sector's income and the enrolment of students. From a business point of view, English language training triggered a price war.

- **The product is not of strategic importance for the customer**

Competitive force: moderately weak—\*\*2

English is becoming more and more important and a necessity for marketplace survival in China, especially in the internationalization and globalization trend.

Its importance has been acknowledged all over China. According to our questionnaire, 100% of participants agree that English is one of the most important skills to possess in order to be successful in their professional careers in modern life. That does not mean that everyone needs to take English training to learn English. 55% of people think it is necessary to take English training and 24% of people consider English training as an important strategic move for them. It is necessary for people to take English training when they have a specific need to improve their English in a given amount of time. The number of students studying abroad in 2008 has reached a total of 179,800. 161,600 of them financially support themselves; accounting for 90% of the total number. From 1978 to the end of 2008, the number of China's students studying abroad had reached a total of 1,391,500. According to national statistics and analysts, the number of China's students studying abroad has been increasing since 2004, and this trend will continue.

Firstly, people have a better life due to China's rapidly increasing economy. More and more families can afford to pay more for their children's overseas education. Secondly, China has a favourable relationship with most other countries, which makes it convenient for students who want to further education abroad. China has exchange programs with foreign universities and governments. Thirdly, China has been taking positive action to encourage students to study abroad, which also leads to an inclination to do so. Families with a strong demand for investing in education make up another major customer group. Every parent wishes to have an outstanding child. The importance of education is one of the Chinese's finest traditions. It does not matter whether you are rich or poor, common or successful, a farmer or a townsman: parents would rather scrimp and save again and again, and work from dusk till dawn, and bear with the situation, in order to train future generations with the money saved. Chinese consider their children as the continuation of their lives and a hope for the future.

The National Bureau of Statistics in 2001 announced that the family education for urban household consumers accounted for 65.5%, and that 56.5% of the parents invested in their children's education. In March 2003, the central bank posted 50 cities in the latest survey and found out that 20.2 percent of household savings were for “children’s education”, which retained its first-place position as motivation for saving. English ranks number one in their education categories. Most of the potential customers who have specific needs like this definitely need to take English training courses to get familiar with tests, successfully pass those tests and improve their English conversational skills. People who want a career also need to take training to have a better chance, which is strategically important for them. Of course, there is a considerable amount of customers who take English training without any particular need, just for fun or to improve them for a brighter future. People in China who would like to spend a considerable amount of money to learn English, definitely consider English training as an important strategic step. Thus, this fact gives more power to English training providers.

• **Possibility of backward compatibility and integration for customers**

Competitive force: weak—\*1

As we all know, the customers are the people who are taking English training. This is good business for the customer market. In general, most customers would not be interested in integrating backwards from the English training market. That being said, the customer bargaining power is weak.

Concentration of customer	*1
The supplying industry comprises a large number of small operators	****4
The supplying industry operates with high fixed costs	**2
The product is undifferentiated and can be replaced by substitutes	***3
Customers could produce the product themselves	**2
Switching to an alternative product is relatively simple and is not related to high costs	****4

Customers have low margins and are price-sensitive	****4
The product is not of strategic importance for the customer	*2
There is the possibility for the customer integrating backwards	*1
<b>Bargaining power of customers</b>	<b>2.55</b>

Table V.5 Estimate of competition power of consumers

#### *V.2.4 Threat of Substitutes*

There are threats from alternative products when their prices are lower and they have better performance parameters for the same usage. They might attract a considerable amount of people, thus reducing the potential sales volume for existing businesses. The factors that determine the degree of threat from a substitute are:

- **Customer brand loyalty**

Competitive force: medium (average)—\*\*\*3

Please refer to Table V.2

According to market surveys, 87% of participants would like to choose the training program offered by widely recognized brands, which means that reputation is very important to be successful in this industry. But people who answer questionnaires also agree that they will switch to other training institutes if the training is not satisfying. So, the loyalty is not that high as regards English training programs, especially in some medium or small cities where those big names have not gained market share. In these areas, customers have no idea about which English training provider has the most suitable program for their needs. So customer loyalty in these sectors is comparatively weak.



- **Cost of switching**

Competitive force: strong—\*\*\*\*\*5

The cost of switching is not high. The training institutes could easily change their employed teachers or switch to others, if necessary.

**Conclusion:** Substitutes are not a strong power in this industry, neither, concerning the analysis above, but it may become strong if the training business needs specific talent teaching expertise with reputation, and special abilities or offerings.

- **The relative price for performance of substitutes**

Competitive force: strong—\*\*\*\*4

According to a survey from the Education Bureau of China, the whole market value for 50,000 English training institutes all over China is about 1.5 billion RMB. The market value in this survey is evaluated according to the national average price. Respondents were the main consumers who spent or would spend money on English training. The survey was targeted in eight cities, from north to south: Harbin, Beijing, Shanghai, Guangzhou, including the south and central regions to Wuhan, mainly south-east coastal economically developed areas. The survey investigates a “psychological endurance price” and did not estimate average market price. Consumers’ psychologically acceptable price is 3000 RMB to 6000 RMB. But the time span should be 2-6 months.

The prices of English training programs are extremely different, according to the diverse English training institutes’ reputation, size, and quality of service. Some programs are priced at 300 RMB seasonally, but some are priced at 10 thousand RMB, such as Wall Street and EF Education training. But the average price is 500 RMB for English test training, and 700 for English training for children (seasonal price). Spoken English training is about 3000 for a period of a few months, and some are up to 7000 to 10,000 for half a year. For a full year’s worth of training, a course consisting of 700 hours would cost about 6000 to 12,000. But some foreign investors, such as EF or Wall Street, offer high-end programs with “luxurious” prices up to 20,000 to 30,000 RMB.

Customer brand loyalty	***3
Switching costs for customers	*****5
The relative price for performance of substitutes	****4
<b>Threat of substitutes</b>	<b>****4</b>

Table V.6 Estimate of competition power of substitutes

### *V.2.5 Competitive Rivalry between Existing Players*

This force is a strong competitive force in this industry. The study of this force is to determine the intensity of competition between industrial players. High competitive pressure can result in changes in price, margins, and on profitability, thus impacting the competitors' strategies.

Competitive rivalry among the English training providers is strong, but at different levels. The market is still in a high growth period, but has been around for 10 years. Considering the large number of competitors in a large territory, the competitive rivalry is very difficult to estimate. There are around 20 main players in the national range with a size similar to that of the other English training providers. Locally, there are different competitive rivalries due to the developmental unbalance of this market in different cities.

#### **• Competitive pricing**

Competitive force: strong—\*\*\*\*4

In China's English training market, diversity is quite important. If we look through all the successful English training businesses, we can easily see that all of them have their own unique character. They all target different customer groups and product categories, as previously mentioned. In the English test category, New Oriental and Global EILTS training are the leading businesses in their categories. Daily English (yanghualianpian) and Liyang Crazy English are good conversational English programs. Some target the Children's English



training which has a big market space as well. The key to success is the diversity among all competitors. How to convey the knowledge and how to learn English is the key factors which a successful provider should advocate to trainees. New Oriental started from English tests training.

From the 1980s to the 1990s, with the opening of China's national gates, more and more students planned to study overseas in English speaking developed countries, such as USA, Canada, and Australia. Those students needed to take English tests as a foreign language, such as TOELF, EILTS, GRE and GMAT and so on. Those tests are sort of new stuff for Chinese students. New Oriental's founder Minhong Yu, did a deep study and analysis of those tests and recruited a whole bunch of experts who had experience in taking those tests and developed special manners to train students for them. After 10 years of efforts, they became the number one leader in the English test training business in China. Liyang Crazy English, as we mentioned before, analyzed pronunciation, i.e., the way the English native speakers talk. It goes a distinct way from the traditional English education system, which uses tests and grammars, and ignores the utility in communication. It advocates that English learners should recite English expressions and sentences "as fast as possible, as loudly as possible, as clear as possible". It goes to extremes sometimes, like crazy, which is where the name comes from. The learners should do their best to imitate the way native English speakers have done when they learned their mother tongue in an English environment. But it was designed according to the English learning problems of Chinese students in order to offer solutions for Chinese students specifically. Daily English (yang hua lian Pan) is the English provider design program providing native and pure expressions for English learners, since Chinese English learners always teach localized English which is called "Chinglish". It is becoming very popular and successful, also by utilizing other marketing tools, such as promotion on TV and so on. What is more, the training channels are as diverse as their different environments and stages. Traditional training, which carried a weight of 99%, is based on classroom and face-to-face

teaching, no matter how big or small the class is, or even if it is a one-to-one class. With the new technology, some providers based on internet offer online training, which has become another popular and efficient way to convey knowledge in China; however, the market still needs to be educated and it will take a while to popularize it, considering the Chinese's consuming habits. So, due to this factor, the differentiation is high and it is the result of market growth and competition.

- **Low market growth rates**

Competitive force: moderately weak—\*\*2

As we mentioned before, the growth rate in China's English training market is still really high, with an average growth rate of 36%, which is relatively high in the business world. Consequently, in this period of market development, it helps to buffer the competition between players.

- **Players have similar strategies**

Competitive force: moderately strong—\*\*\*\*4

The strategies adopted by English training providers in China are diverse because of the intensity of the competition. But most of them still cannot be beyond the traditional business strategies. By analysis we could categorize the main strategies as follows:

Promotion: this is one of the most important strategies in this industry. Most of the customers have no clue about how to choose their English training program except by receiving second hand information from the media or other resources. What is more, the product or service of this industry is different from other concrete products, such as foods, daily-use stuffs, which can be seen easily. Any English training program needs to be verified and tested according to the customer's experience.

So, the introduction of programs and the feedback from other people who have

taken the programs are very critical for them to make a decision. Some large players with considerable capital resources, such as EF, New Oriental, and Wall Street have been investing huge amounts for their promotion in all kinds of channels. It is really hard to have the data of the budget of those big names, but by looking at the frequency of their name's showing in all kinds of media and the price of those promotions, we can definitely tell the huge amount of their promotions. This is also one of the factors for their successful business in China.

#### • **Differentiation**

Competitive force: moderately weak—\*\*\*\*4

In the previous section, we have discussed the differentiation in this industry. We can see that it is a very important characteristic for an English training business to be successful. I consider differentiation as the number one key factor for an outstanding business. Conclusion of competition rivalry: competition rivalry is a strong force in the English training industry in China, within five competition forces, concerning the around 50000 training providers around China. The main strategies adopted by competitors are promotion, differentiation and improving the quality. A lot of big players have put huge investment to improve the training environment, facilities and promotions. But another factor which is more important for success is the way and methodology adopted for teaching English specifically to Chinese learners. With the development of this industry, the requirement for a business to succeed is becoming more and stricter. An English training provider not only needs to provide a suitable and efficient way to teach English but has also to offer a convenient and comfortable way for customers to enjoy the service. So, no matter what is the size of the business, the competition rivalry between competitors is high and it is a strong force. However, we can tell from the analysis above that business models and training methodology for differentiation are the keys for survival and success.

Competitive pricing	****4
Low market growth rates	**2
Players have similar strategies	****4
Differentiation	****4
<b>Competitive Rivalry between Existing Players</b>	****3.6

Table V.7 Estimate of competitive rivalry between existing players

### V.3 Conclusion of Porter's five forces

According to the analysis of Porter's five forces, the English training market in China is moderately competitive. It is still experiencing a growth period with an advancing and developing pace. More and more players are still trying to jump into this market to struggle for opportunities and the situation is becoming more and more complicated. Local and international training providers all have their own advantages in various training categories. Local companies are more familiar with the Chinese market and its consumer habit, which is a key success factor in teaching locals to learn English with efficiency, keeping in mind problems and barriers that the native Chinese speaker must conquer. International players have abundant financial resources and capital to invest in their business to develop it more professionally.

Threat from new competitors in the marketplace	4.4
Bargaining Power of Suppliers	1
Bargaining Power of Customers	2.56
Threat of Substitutes	4
Competitive Rivalry between Existing Players	3.6
<b>Intensity of Industrial Competition</b>	<b>2.92</b>

Table V.8 Estimate of intensity of industrial competition

According to our definition framework, 2.92 is a slightly less than medium (average) competitive environment. We can tell that there are still a lot of opportunities for international companies to enter this developing market with their advantages and functional leverages.

## **VI. DISCUSSION, FINDINGS, CONCLUSION AND IMPLICATIONS**

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In the previous chapter, all of the data was collected and demonstrated. Through this analysis, we reached the final quantitative results of the degree of competition which is the problem with China's English education market.

### **VI.1 Discussion and research review**

Our research is an investigation of the characteristics and situation of China's English education market. Based on the testing models, two research questions were asked:

- 1. What is the economic and industrial situation of China's English education market?**
- 2. What is the advantage of foreign investors, and how can we benefit from them?**

These two questions are at the core of a very specific industry, which is China's English education market. Our research presents a typical case and is trying to prove that there is a developing and promising market overseas for foreign businesses or international (even global) corporations if they dig out the status of an existing market and place it in another mature market, but with an absolutely different culture. China's native language is Chinese (Mandarin), which is far from English or other written languages. The new trend of economical development and the popularity of the English language in modern life make English an essential tool for people to be successful and to survive in this competitive society.

How do customers think? What are the most profitable targeted markets in China? What are the practical problems that all foreign business investors need to consider? In order to completely investigate this market, we researched the macro-economy of China previously to the narrow market under consideration and the industrial analysis of the specific market. It showed China's economy to be very promising, especially for the developing market. To investigate the market, we used Michael Porter's classic theory on the market and an industry study model—five forces theory as a basic model, to which we added quantitative factors. We also performed a deeper analysis of every “force” in order to get more detailed market trends

**VI. 2 Question 1: What is the industrial situation in the specific market? (China's English education market) and what is the influence it has on the business strategies?**

In general, China's English education market is a big and promising market. It has the largest population anywhere in the world. China's training market has maintained an average growth rate of 57.2 % from 2004 to 2008. Its market value will be 30 billion RMB. Metropolitan and large cities will be the major market for growth and profitability. There are numerous competitors in this fragmented market with unaccountable brands. The capital requirement is not that high, which means it, can be reached by both medium and large investors. The quality of service is different for the training businesses with abilities in different areas.

It becomes clearly categorized as different training sections. Programs have been developed and subdivided with more customer-orientation. Businesses should be more careful in making market-orientation more attractive. From the analysis we can come to the conclusions stated below:

- The barrier for new investors is weak. The capital, politics and scarcity of resources is small. The loyalty of customers and cost of switching service providers are small, which means that the degree of competition is strong.
- The competition from suppliers in this industry is weak. The suppliers which are mainly the English teachers are fragmented and resources are scarce, no matter whether it involves the local English elites or foreign teachers under China's globalization trend.
- The competition originated from customers is a medium power in this industry. Due to the number of English training providers, there is a low cost of switching, giving customers the option to choose different training providers. The big name training providers still have an advantage in certain training areas.
- The substitutes of the English training market provide a strong competitive power. The loyalty of customers is comparatively weak and the large number of competitors makes the competition from substitutes strong. But, some existing training businesses with a good reputation also have an advantage that cannot be easily attained by most competitors.
- The competitive rivalry in the marketplaces is strong. With the development of this market, more and more competitors jump into the river to struggle for profit. Foreign investors and locals all have their advantages. The effort from them to develop new programs according to the new market demands makes competition fiercer. According to our calculations, we reached a final average of 2.92, which is a moderate degree of difficulty. Consequently, we can tell from our analysis that this is a comparatively profitable market with a big chance for survival and success.



### **VI. 3 Question 2: What are the advantages of foreign investors in the industry, and how can we benefit from them?**

From our previous analysis of the competitors in sectors, we can see the advantages and disadvantages of investors with different characteristics. In order to offer a practical contribution, we focused on foreign owned businesses or joint-ventures. The advantages of foreign investment related businesses are as follows:

- Abundant capital, allowing them to build high standard teaching environments, new education and business models (such as online programs), to process, promote, and hire highly qualified teachers.
- The precious and valuable experience obtained from the English education business management of other mature or developing markets.
- The high quality brand names, original native English speakers, and globalization.
- Accurate market target with professional marketing team and marketing experience. The high end targeted market usually brings considerable profit.
- The way to teach English focuses on more practical ways and efficiently avoids the shortcomings of local education system.

The disadvantages in comparison to local competitors:

- Comparatively less familiarity with the local market, including the culture and related customer values.
- No close network of local competitors.
- Not as direct and familiar as local competitors in knowing the customer demands and the way to study English in China in certain training categories, such as English test training, so that most of the test training markets are occupied by local competitors, like New Oriental.

We can make suggestions for foreign investors, based on the above conclusion.

- Fully utilize their capital, brand name, and international advantage to set up their high end reputation.
- Develop more new specific business models and training models to facilitate customer demands, such as online services, one-to-one education and so on.
- Carry out deep market research to enter and succeed in disadvantageous categories, such as English test training; strengthen advantage categories, such as practical communication training and conversational English training.

#### **VI. 4 Research implications**

By studying the Chinese English training market, we can see the special characteristics of this promising developing market. Commonly, most industries have similar situations in their markets, with similar characteristics. This could be a typical example for international and global companies, which they can use as a reference to enter and succeed in a developing and blossoming market, such as China.

## **VI.5 Conclusion**

- For many industries, developing countries have a huge market space to dig out profits and allow international companies to enter and explore considerable market shares. There are usually special environmental issues which can be utilized and addressed by international players to become leaders, such as political assistance, burgeoning markets with opportunities, low quality and ability of local players. Choosing the best time to take advantage of what cannot be easily duplicated by local players is the key factor to being successful.

- In an expanding market, we can see the imbalance in the development of different territories, and the different categories of different capitalized investors. Most of the fragmented local businesses with weaker skills and limited diversity usually chase the low end market with lower prices and lower quality of service. Customers are divided as low end and high end. Some low end customers cannot afford the high end service. They do not need the complexity of high end service and are not familiar with it. (Example: the ERP business in China. Local competitors can have a much simpler service than Oracle and SAP at 1/3 of the price, which can satisfy the demand of small and medium customers.) International players cannot sit and wait for the market to develop, but can educate the local market to be more professional and choose more cooperative strategic actions, resulting in better collaboration with local competitors.

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## Appendix:A

### Index of Difficulty of Learning a Foreign Language (Language Scores) and Codes for Languages Reported in the U.S. Census

Language	Direct Codes 1990, 2000 Censuses	Close Codes 1990 Census	Changes for 2000 Census	Language Score
Afrikaans	611			3.00
Danish	615			2.25
Dutch	610	612		2.75
French	620	621,622,623,624		2.50
German	607	608,609,613		2.25
Italian	619			2.50
Norwegian	616	617,618		3.00
Portuguese	629	630		2.50
Rumanian	631	632		3.00
Spanish	625	626, 627		2.25
Swedish	614			3.00
Indonesian	732	730-731, 733-737		2.00
Malay	739			2.75
Swahili	791	792		2.75
Amharic	780			2.00
Bengali	664			1.75
Bulgarian	647	648		2.00
Burmese	717			1.75
Czech	642			2.00
Dari	660			2.00
Farsi	656	657, 658, 659, 661		2.00
Finnish	679	680		2.00
Greek	637			1.75
Hebrew	778			2.00



Hindi	663	662, 665-669, 678	Add 671	1.75
Hungarian	682			2.00
Lao	720			1.50
Cambodian	726			2.00
Mongolian	694	695, 716		2.00
Nepali	674			1.75
Polish	645	644, 646		2.00
Russian	639	640, 641		2.25
Serbo-Croatian	649-651	652		2.00
Sinhala	677			1.75
Tagalog	742	740, 741, 743-749		2.00
Thai	720	717, 718, 719	Add 725	2.00
Turkish	691	689, 690, 692, 693		2.00
Vietnamese	728	729		1.50
Arabic	777	779		1.50
Mandarin	712	713, 714, 715		1.50
Japanese	723	725	Delete 725	1.00
Korean	724			1.00
Cantonese	708	709, 710, 711, 721, 722		1.25

Note: Language Codes in this table are from 1990 *United States Census of Population and Housing, Technical Documentation* and from 2000 *United States Census of Population and Housing, Technical Documentation*. There are minor differences in the language codes in the 1990 and 2000 Censuses. These differences are indicated in column (3). Column (4) is the language score for the direct codes.

Source of Matching Codes: (a) Joseph E. Grimes and Barbara F. Grimes, *Ethnologue: Languages of the World*. Summer Institute of Linguistics Inc., Dallas, Texas, 13th edition, 1993.  
(b) Adam Makkai, Professor of Linguistics, Department of English, University of Illinois at Chicago.

Source of Language Score: Lucinda Hart-Gonzalez and Stephanie Lindemann, "Expected Achievement in Speaking Proficiency, 1993", School of Language Studies, Foreign Services Institute, Department of State, April 15, 1993.